

PUBLIC DISCLOSURE

April 1, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

THE FIRST STATE BANK
10-40-1250

P.O. BOX 427
FAIRFAX, OKLAHOMA 74637

Federal Reserve Bank of Kansas City

925 Grand Boulevard
Kansas City, Missouri 64198

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act ("CRA") performance of The First State Bank, Fairfax, Oklahoma, prepared by Federal Reserve Bank of Kansas City, the institution's supervisory agency, as of April 2, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: *Satisfactory record of meeting community credit needs.*

The bank has a satisfactory record of helping to meet the credit needs of its entire assessment area including low- and moderate-income households or neighborhoods. The loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. A substantial majority of loans are in the institution's assessment area. Furthermore, the geographic distribution of loans and the distribution among borrowers of different income levels and businesses and farms of different sizes are reasonable.

The following table indicates the performance level of The First State Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The First State Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION

The bank has the ability to meet the credit needs of its defined assessment area based on the bank's size, financial condition, and resources. According to the December 31, 1995 Consolidated Reports of Condition and Income (ACall Report®), the bank's assets totaled \$38,221M, of which loans constituted \$15,363M or 40 percent. As depicted on the following page in the loan distribution table, the bank is primarily a consumer and agricultural lender. However, the bank does offer a variety of loan products to meet the credit needs of its assessment area. The types of credit products offered by the bank, as listed in the bank's public file, include all-purpose consumer loans, mobile home loans, home purchase and refinance loans, and loans to finance agriculture and businesses of all sizes.

THE BANK'S LOAN PORTFOLIO		
Loan Type	Amount (\$000)	Percent of Total
Multiple and 1- to 4-family real estate	2,319	15
Farmland or agricultural	5,092	33
Commercial	1,219	8
Nonfarm nonresidential	963	6
Consumer	5,935	39
Other	164	1
Less: Unearned income	(329)	(2)
TOTAL	15,363	100

Bank locations and credit services are readily accessible to the entire community. The bank has a full service location in Fairfax and a facility for customers making deposit and withdrawal transactions in Ralston, Oklahoma, located approximately four miles south of Fairfax. A branch closing policy that meets the requirements of the Federal Deposit Insurance Corporation Improvement Act of 1991 has been adopted by the bank's directorate.

DESCRIPTION OF BANK'S ASSESSMENT AREA

The bank's assessment area includes portions of Osage and Pawnee Counties in north central Oklahoma. The area consists of two census tracts and two block numbering areas (ABNAs®) and includes a portion of the Tulsa, Oklahoma, Metropolitan Statistical Area (AMSA®). Management based the assessment area on the bank's geographic location, socioeconomic information, size and resources, and its competitive position.

Assessment area characteristics based on the 1990 census are summarized in the following table.

BANK ASSESSMENT AREA CHARACTERISTICS	
Tract Summary	
Total Number of Tracts	4
Number of Moderate-Income Tracts	3
Number of Middle-Income Tracts	1
Income Summary	
Median Family Income	26,183
Percent Low-Income Families	27.7
Percent Moderate-Income Families	22.1
Percent Middle-Income Families	22.6
Percent Upper-Income Families	27.6
Unemployment Summary	
Labor Force Population (Assessment Area)	5,829
Percent Unemployment (Assessment Area)	7.1
Percent Unemployment (Tulsa MSA)	5.8
Miscellaneous Information	
Total Population	12,634
Percentage of Households Below Poverty	13.6
Percentage of Housing Units Vacant	17.9

Fairfax is located in Osage County, approximately 75 miles northeast of Tulsa, Oklahoma. Agriculture and oil production have been the primary sources of employment for the area, although the local economy remains stagnant due to depressed oil and agricultural prices. Consequently, the area has been converted to serve largely as a retirement community.

Community contacts were optimistic about future economic prospects. Recently, there has been an increase in tourism. Furthermore, the completion of major water

and sewer infrastructure projects should attract more businesses into the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Several factors were considered in evaluating the bank's CRA performance. A review of the bank's level of lending in relation to its deposits and other comparable financial institutions was performed. Penetration of loan originations within and outside the bank's defined assessment area was also evaluated. Furthermore, the bank's level of lending to borrowers of different income levels and to businesses and farms of different sizes was reviewed. Finally, the distribution of loan originations within the bank's assessment area was evaluated. The CRA evaluation did not include an assessment of the bank's performance under the investment and services tests.

The bank's adjusted loan-to-deposit ratio (calculated using the average for the four quarters of 1995) of 46 percent is lower than the bank's peer group and other comparable area financial institutions. The adjusted loan-to-deposit ratio for the bank's peer group over the same 12-month period was 66 percent. The bank's peer group consists of all insured commercial banks having assets between \$25MM and \$50MM with two or more banking offices and located in a metropolitan area. Two neighboring banks of similar size and resources located in the bank's assessment area had loan-to-deposit ratios of 53 percent and 64 percent, respectively, over the same period.

The bank's loan-to-deposit ratio is a reflection of consumer demand in the area. The bank is located in a depressed area that is comprised mostly of retired individuals. As identified in discussions with community contacts, the need for large dollar credit is minimal. The primary credit needs of the community are for small-dollar, short-term consumer and agricultural loans. The bank has demonstrated a willingness to extend both types of credit. Thus, the bank's loan-to-deposit ratio is reasonable in view of the bank's lending-related activities and given management's philosophy, the institution's size, financial condition, and assessment area credit needs and demands.

A substantial majority of the bank's lending occurs inside its assessment area. The table below demonstrates, by general product-type, the percentage of loans in the samples that were located within the bank's assessment area

LOANS WITHIN THE BANK'S ASSESSMENT AREA	
<i>LOAN TYPE</i>	<i>PERCENTAGE</i>
Real estate	97
Motor vehicle	80
Agricultural	100
Commercial	100

Furthermore, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and small businesses and farms. Borrower income and revenues for farms and businesses were not readily available in the credit files. Consequently, loan amount and socioeconomic characteristics of borrowers were used as proxies to determine approximate income.

Finally, the geographic distribution of loans originated by the bank reflects reasonable dispersion throughout the bank's assessment area. A review of the bank's files found that the majority of originated loans were located in tracts 105 and 9574. The bank has facilities in both of these tracts. In contrast, the penetration in the remaining two tracts that comprise the bank's assessment area was low. However, other financial institutions are in direct competition with the bank in these tracts.

No substantive violations of the antidiscrimination laws and regulations were identified. Furthermore, reviews of bank policies, credit applications, loans, and interview procedures revealed no prohibited practices designed to discourage loan applicants.